INVESTING YOUR MONEY

Part I: So, you want to be an investor?

This is the first in a four-part series on the decisions you must make before investing your money. We believe it is important to cut through much of the jargon and headlines, and get to the common sense of being an investor. In the next few posts, we offer our perspective, one we have reached over decades of managing people's money. Yes, we actually do it, not just talk about it!

Investing your money is a whole different endeavour than day trading, or speculating on the latest hot opportunity, or even picking a local business which impresses you. When you get serious about investing for a reasonable time period, and with a clear objective such as "I want to grow my money," "I want some income as well," or even "I need to live off the income," then there are common-sense guidelines, likely very different than what you might hear from your favourite stock broker or the guy on TV.

First there is the where. Just as in buying real estate, there are three important issues -- location, location and location. Investing requires decisions on region, currency and sector. One of the first steps for investors (or their advisors) is where -- "which country / economy will give me the best chance of generating the best return?" Of course it's also important to assess the impact of the currency if you are investing outside Canada. There's no point making a good return in another country only to lose it all when translating back to Canadian dollars. A careful review of global economic trends (Macro!) is needed to determine where to invest in the current cycle. This will also tell you which currency to favour and which to hedge against.

Then there is the issue of liquidity, the ability to sell your investment on a timely basis. There's no point locking yourself in for 5 years if you might need the funds before that time. What if the investment does well for 3 years and you then want to sell based on an updated outlook? Invest mostly in liquid securities such as stocks and bonds!

Stocks and bonds generally behave differently from each other during different economic climates. In most of the developed world, interest rates have been declining for about 30 years! That was nirvana for bond investors. As interest rates decline, the value of a bond or other fixed rate investment which was issued at an earlier time and at a higher rate, increases! Most investors over the age of 50 grew up with the knowledge that a balanced portfolio of stocks and bonds would benefit from both the growth in the stocks and that the bonds could add both interest and capital gains, as well as provide stability for the portfolio. Perfect! For much of the developed world, those days are gone. In Canada, there is still a little room for the Bank of Canada to reduce rates and support our economy so as to avoid a deeper and prolonged recession. This will help bond returns in Canada for a while longer. In the U.S. and soon elsewhere, interest rates are about to rise and that new trend will likely go on for years to come. The cycle is changing. Should stocks now be favoured over bonds? Yes, more so than in past decades. Look at the real estate comparison again. When interest rates fall, it becomes easier to take on more mortgage debt, thus supporting demand to buy real estate. What will happen when interest rates finally trend higher? The opposite.

Risk is a huge part of your investment decision. "Can I stomach seeing my investments go down by 5, 10 or even 20% in a given year?" If you cannot, then perhaps you're not ready to be a growth investor. Assessing the likely risk (by which we mean volatility, not so much irreversible losses, for example from bankruptcy) and your own ability to deal with it both financially and emotionally, is critical to seeing your results as successful.

The economy of developed countries is diversified over different industries and sectors such as financial, energy, industrial, technology, etc. Once you have determined how long you want to invest -- your time horizon; what levels of risk and return are suitable for you?; what country or region should you focus on and what currency will best meet your needs and support your return objectives? Then it's time to decide what sectors of the economy to favour and which not to favour. Different sectors outperform /underperform at different points in an economic cycle. You want to give yourself the best chance for success and you will need to constantly update all that input.

So far, we haven't even looked at a stock or issuer of a bond. That is a very important step, true, but there's no point choosing one in a lagging sector or currency. You should be able to find one that is likely to outperform!

All we have dealt with to this point are the MACRO decisions. **Macro Matters!** In our next post, Part II, we'll show you some specific examples in a look back at our Q1 2015 Market Outlook. So if you approach investing by jumping on someone's fervor over a stock touted by, a neighbour (yes, it happens!), or a TV host (too often!), check to see if it fits the MACRO decision of country/region; asset selection (stock or bond); currency; and sector first.

Picking a stock or a bond that's going to be a winner? Well, that's another story for Part III. Stay tuned.

Worth Allaye-Chan Investment Counsel
Raymond James
2100 925 West Georgia Street,
Vancouver, B.C.
V6C 3L2
Tel: 604 659 8066 | Toll Free: 1 855 659 8066 | Fax: 604 659 8449
Email: worthallayechan@raymondjames.ca
Website: www.worthallayechan.com